

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-06 OMB-01 CEA-01 L-03 H-02 PA-02
PRS-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 /114 W
-----115346 110953Z /10

P R 110905Z JAN 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 4246
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JAN 5-11

1. SUMMARY. BANK OF JAPAN (BOJ) AND EXCHANGE MARKET REACT FAVORABLY TO U.S. DISCOUNT RATE HIKE. MONEY SUPPLY SPURTS IN NOV. CONSTRUCTION ORDERS DIP IN NOV AND NEW CAR REGISTRATIONS DIP IN DEC. FOREIGN YEN BOND ISSUES EXPECTED TO ACCELERATE IN JAN-MAR 1978. SECONDARY BOND MARKET YIELDS DECLINE AGAIN IN DEC. END SUMMARY.

2. EXCHANGE MARKETS AND BOJ OFFICIALS RESPONDED FAVORABLY TO THE JAN 6 INCREASE IN THE FED DISCOUNT RATE. ON THE MONDAY FOLLOWING ANNOUNCEMENT OF THE DISCOUNT
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RATE HIKE, THE DOLLAR MOVED UP FROM ITS FRIDAY CLOSE OF 240.80 TO CLOSE AT 241.90. THE DOLLAR CONTINUED TO TRADE ABOVE 241.00 ON TUES AND WED. PRESS REPORTS DESCRIBE BOJ OFFICIALS AS WELCOMING THE OVE, SAYING IT WILL GIVE BOTH A FINANCIAL AND PSYCHOLOGICAL SUPPORT TO U.S. EFFORTS TO STABILIZE THE EXCHANGE MARKET.

3. GROWTH IN MONEY SUPPLY ACCELERATED RAPIDLY IN NOV. NARROWLY DEFINED MONEY SUPPLY, M-1, ROSE AT ANNUAL RATE OF NEARLY 40 PERCENT, WHILE BROADLY DEFINED MONEY SUPPLY, M-2 AND M-3, ADVANCED AT AROUND 18 PERCENT ANNUALLY, S.A. FOLLOWING TABLE ALSO SHOWS FACTORS CONTRIBUTING TO NOV CHANGES IN M-2, N.S.A. ON THIS BASIS CREDITS TO PRIVATE SECTOR WAS THE LARGEST CONTRIBUTOR TO NOV MONEY SUPPLY GROWTH. CONTRIBUTION OF NET FOREIGN ASSETS WAS LARGER THAN IN OCT, REPRESENTING NEARLY 20 PERCENT OF NOV MONEY SUPPLY GROWTH. MONEY AND CREDIT, S.A.

(BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	M-1 (JEI 123)	M-2 (JEI 126)	M-3 (JEI 127)	LOANS AND DIS- COUNTS (JEI 133)
SEP	54,662 (-1.0)	149,598 (0.6)	226,602 (1.1)	104,474 (0.9)
OCT	54,942 (0.5)	150,026 (0.3)	228,148 (0.7)	105,023 (0.5)
NOV	56,679 (3.2)	152,484 (1.6)	231,488 (1.5)	105,980 (0.9)

CHANGES IN M-2

	SEP	OCT	NOV
(MONTHLY PERCENT CHANGE AT ANNUAL RATE, I.E. TIMES 12)			

M-2, S.A.	7.3	3.5	19.7
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M-2, N.S.A.	14.5	-0.5	24.6
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(FACTORS CONTRIBUTING TO CHANGES IN M-2, N.S.A.)

CREDITS TO:

PRIVATE SECTOR	11.1	5.6	12.9
NATIONAL GOVERNMENT	3.7	0.5	4.2

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LOCAL GOVERNMENT	1.0	-0.5	0.4
FOREIGN ASSETS, NET	1.5	3.4	4.9
OTHERS	-2.8	-9.4	2.2
TOTAL ALL FACTORS	14.5	-0.5	24.6

4. NEW CONSTRUCTION ORDERS, S.A., DECLINED IN NOV, DOWN 2 PERCENT FROM PRIOR MONTH AFTER 5 PERCENT INCREASE IN OCT. IN NOV, ORDERS PLACED BY PUBLIC AND PRIVATE SECTORS BOTH RECORDED DECLINES. CONSTRUCTION ORDERS PLACED BY GOVT AND PUBLIC AGENCIES DROPPED SHARPLY BY 16.5 PERCENT, RECORDING SECOND STRAIGHT MONTH OF SIMILAR MAGNITUDE DECLINE. PRIVATE CONSTRUCTION ORDERS DECLINED 7.2 PERCENT IN NOV FOLLOWING REBOUND (UP 23.2 PERCENT) IN OCT.

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NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 /114 W
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P R 110905Z JAN 78
FM AMEMBASSY TOKYO
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NEW CONSTRUCTION ORDERS, S.A.
(IN BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)
GOVT/PUBLIC PRIVATE TOTAL(NOTE)
(JEI 324) (JEI 325) (JEI 323)
SEP 305.7 (-1.8) 245.6 (-1.5) 541.2 (-10.6)
OCT (REV) 255.9 (-16.3) 302.6 (23.2) 567.9 (4.9)
NOV (PRE) 213.8 (-16.5) 280.9 (-7.2) 556.4 (-2.0)
NOTE: TOTAL INCLUDES SMALL AMOUNT IN "OTHER" CATEGORY.

5. NEW CAR REGISTRATIONS, S.A., DROPPED IN DEC AFTER SHARP
ADVANCE IN NOV, THOUGH STILL LEAVING CAR SALES IN THE FOURTH
QUARTER UP 7.4 PERCENT (S.A.) ABOVE THIRD QUARTER'S LEVEL.
CAR SALES WERE STRONG DURING THE FIRST QUARTER OF 1977,
SAGGED IN THE SECOND AND THIRD QUARTERS, AND REBOUNDED IN
THE FOURTH QUARTER. FOR THE YEAR AS A WHOLE, NEW CAR
SALES RECORDED A SMALL INCREASE, UP 2.4 PERCENT OVER PRIOR
YEAR'S LEVEL, AFTER THE DECLINE (10.5 PERCENT) IN 1976.

NEW CAR REGISTRATIONS, S.A.
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THOUSAND CARS PERCENT CHANGE FROM PRIOR
PERIOD
RECENT MONTHS:
OCT 198.2 1.7
NOV 220.9 11.5
DEC 204.0 MIN 7.6
RECENT QUARTERS (MONTHLY AVERAGE):
1977: JAN-MAR 220.9 10.0

APR-JUNE	210.5	MIN 4.7
JUL-SEP	193.5	MIN 8.1
OCT-DEC	207.7	7.4

6. YEN BOND ISSUES ARE EXPECTED TO ACCELERATE FURTHER DURING JAN-MAR QUARTER. NIHON KEIZAI JAN 7 REPORTED TEN YEN BOND ISSUES AMOUNTING TO 200 BIL YEN (ABOUT \$0.8 BIL AT 240 YEN/DOL RATE) ARE SCHEDULED FOR JAN-MAR QUARTER, AS COMPARED WITH THE 296 BIL YEN (\$1.2 BIL) BOND ISSUES FOR THE FULL YEAR OF 1977. FOLLOWING ARE EXPECTED YEN BOND ISSUES FOR THE FIRST QUARTER OF THIS YEAR (AMOUNT OF BOND ISSUE IN PAREN IN BIL YEN): JAN: PROVINCE OF MANITOBA (15); DANISH GOVT (20), KOREAN INDUSTRIAL BANK (10); FEBRUARY: AUSTRALIAN GOVT (40), CITY OF OSLO (15), FINNISH GOVT (25); MARCH: PHILIPPINE GOVT (15), ASIAN DEVELOPMENT BANK (20), MALAYSIAN GOVT (15), FRENCH NATIONAL RAILWAYS (25).

7. BOND YIELDS IN THE SECONDARY MARKET CONTINUED TO DECLINE IN DEC, WITH RATE OF DECLINE ACCELERATING GENERALLY FROM NOV: YIELDS ON GOVT AND NTT BONDS DECLINED FOR THE THIRD STRAIGHT MONTH IN DEC TO 6.3 AND TO 6.6 PERCENT PER ANNUM, RESPECTIVELY. INDUSTRIAL BOND YIELDS ALSO DROPPED BELOW 7 PERCENT AT END OF DEC. WITH SECONDARY MARKET BOND YIELDS CONTINUING TO DECLINE IN JAN, LONG-TERM MONEY RATES ARE EXPECTED TO BE LOWERED SOMETIME IN FEB. DISCREPANCIES BETWEEN YIELDS TO SUB-UNCLASSIFIED

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SCRIBERS ON NEW ISSUES AND SECONDARY MARKET BOND YIELDS HAVE BECOME TOO LARGE TO BE NEGLECTED. THESE DISCREPANCIES NOW RANGE FROM 0.3 TO 0.9 PERCENTAGE POINTS.

SECONDARY MARKET BOND YIELDS

(ANNUAL RATE, IN PERCENT)

END OF MONTH	GOVT BOND	TEL & TEL BONDS	INDUSTRIAL BOND
OCT	6.720	6.943	7.291
NOV	6.581	6.777	7.097
DEC	6.273	6.580	6.961

8. CAL MONEY RATES WERE RAISED THREE TIMES IN DEC, BY A TOTAL OF 0.625 PERCENTAGE POINTS, UNTIL THE LAST DAY OF THE YEAR, WHEN CAL RATES WERE, AS IS CUSTOMARY, LOWERED. UNCONDITIONAL CALL MONEY RATE WAS LOWERE BY 0.5 PERCENTAGE POINTS TO 4.75 PERCENT PER ANNUM, EFFECTIVE ON THE AFTERNOON OF DEC 31, 1977. AVERAGE UNCONDITIONAL CALL MONEY RATE (JEI 178) WAS 5.014 PERCENT PER ANNUM IN DEC, UP FROM 4.620 PERCENT IN NOV. BILL DISCOUNT RATE WAS ALSO LOWERED BY 0.5 PERCENTAGE POINTS TO 5.25 PERCENT PER ANNUM, EFFECTIVE DEC 31, 1977.

MANSFIELD

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